Joint Committee on Taxation
August 4, 1989
JCX-44-89

**- Ways and Means Committee -**
**PRELIMINARY ESTIMATES OF BUDGET EFFECTS OF THE REVENUE RECONCILIATION PROPOSAL**

**COMMITTEE ACTION TO DATE**

Fiscal Years 1990-1994
[Millions of Dollars]

| Item | 1990 | 1991 | 1992 | 1993 | 1994 | 1990-94 |
|---|---|---|---|---|---|---|
| **I. PRIOR COMMITTEE ACTION** | | | | | | |
| A. Repeal Financial Institution (FSLIC & FDIC) Tax Benefits (H.R. 1278) (effective May 10, 1989) (1) | 253 | 346 | 351 | 310 | 213 | 1,469 |
| B. Technical Corrections | -2 | -9 | -8 | -5 | -4 | -28 |
| Subtotals: | 251 | 337 | 343 | 305 | 209 | 1,441 |
| **II. ADMINISTRATION PROPOSALS*** | | | | | | |
| A. Suspend Airport & Airway Trust Fund tax reduction trigger until expiration of present taxes (effective January 1, 1990) (3) | 851 | 269 | -- | -- | -- | 1,120 |
| B. Loophole Closers: | | | | | | |
| 1. Characterize certain high-yield original issue discount (OID) obligations as preferred stock | 25 | 51 | 94 | 131 | 160 | 461 |
| 2. Consolidate computation of earnings and profits for corporations filing consolidated returns | 37 | 77 | 129 | 176 | 229 | 648 |
| 3. Like-kind exchanges: | | | | | | |
| a. Limit like-kind exchanges to similar use property | 143 | 222 | 273 | 325 | 378 | 1,341 |
| b. Restrict basis shifting techniques in certain related-party like-kind exchanges | 100 | 120 | 130 | 140 | 151 | 641 |
| c. Amend holding period requirements for like-kind exchanges | (4) | (4) | (4) | (4) | (4) | (4) |
| 4. Limit section 104 exclusion from income to amount received for personal injury | 4 | 8 | 8 | 10 | 12 | 42 |
| 5. Tax pre-contribution gain on certain in-kind partnership distributions | 5 | 10 | 10 | 11 | 11 | 47 |
| 6. Limit nonrecognition treatment when securities are received in certain section 351 transactions | 105 | 165 | 168 | 159 | 81 | 678 |
| Subtotals: | 1,270 | 922 | 812 | 952 | 1,022 | 4,978 |
| **III. MODIFIED ADMINISTRATION PROPOSALS*** | | | | | | |
| A. Impose Oil Spill Liability Trust Fund petroleum tax (effective October 1, 1989, through December 31, 1991) at $0.03 per barrel (cap at $300 million), without waiting for authorizing legislation | 69 | 122 | 41 | -- | -- | 232 |
| B. Modify collection period of telephone excise tax (100% speedup, effective for taxes billed by service producers after June 30, 1990) | 102 | -102 | -- | -- | -- | --- |
| Subtotals: | 171 | 20 | 41 | --- | --- | 232 |

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| Item | 1990 | 1991 | 1992 | 1993 | 1994 | 1990-94 |
|---|---|---|---|---|---|---|
| IV. OTHER PROPOSALS* | | | | | | |
| A. Employee Stock Ownership Plan (ESOP) proposals: | | | | | | |
| 1. Repeal partial interest exclusion for interest paid on ESOP loans (section 133) (effective June 7, 1989) | 1,265 | 1,595 | 2,005 | 2,385 | 2,746 | 9,996 |
| 2. Repeal the deduction for dividends paid on employer securities obtained by an ESOP (section 404(k)) | 358 | 418 | 586 | 731 | 838 | 2,931 |
| 3. Impose 3-year holding period on seller to be eligible for tax-free rollover (section 1042) | (4) | (4) | (4) | (4) | (4) | (4) |
| 4. Delay effective date of ESOP provisions (July 10, 1989) | -105 | -98 | -91 | -85 | -79 | -458 |
| 5. Repeal sections 2057, 2210, 415(c)(6), and 382(l)(3)(C) | 77 | 166 | 99 | 50 | 50 | 442 |
| 6. Provide 30% employee ownership exception to sections 133 and 404(k) repeal | -182 | -231 | -275 | -318 | -356 | -1,362 |
| B. Repeal transition rule for certain high withholding tax interest (H.R. 2697) (effective January 1, 1990) | 263 | 325 | 255 | 165 | 83 | 1,091 |
| C. Repeal remaining portion of completed contract method of accounting | 171 | 390 | 262 | 116 | 28 | 967 |
| D. Corporate mergers and acquisitions: | | | | | | |
| 1. Certain transactions involving foreign and other tax-exempt investors: | | | | | | |
| a. Limit interest deductions for earnings-stripping payments to related parties | 28 | 38 | 44 | 47 | 49 | 206 |
| b. Tax stock gains of certain foreign investors | (4) | (4) | (4) | (4) | (4) | (4) |
| 2. Clarify Treasury regulation authority relating to debt/equity (section 385) | (4) | (4) | (4) | (4) | (4) | (4) |
| 3. Require reporting to IRS of acquisitions and recapitalizations (effective on date of enactment) | (4) | (4) | (4) | (4) | (4) | (4) |
| 4. Require Treasury study of "debt versus equity" and integration issues | -- | -- | -- | -- | -- | --- |
| E. Permit limited use of excess pension funds to pay current retiree health benefits (effective January 1, 1990) | 286 | 465 | 176 | (2) | (2) | 927 |
| F. Include certain deferred compensation in calculation of indexing of FICA base (effective January 1, 1990): | | | | | | |
| 1. Revenue | 400 | 1,100 | 1,100 | 1,100 | 1,100 | 4,800 |
| 2. Offsetting outlay | -90 | -250 | -450 | -710 | -1,020 | -2,520 |
| G. Impose gasoline excise tax when gasoline is received at terminal (effective October 1, 1989) | 117 | 60 | 60 | 60 | 60 | 357 |
| H. Require corporate estimated tax payments on tax liability for certain Subchapter S income (effective January 1, 1990) | 25 | (4) | (4) | (4) | (4) | 25 |
| I. Impose income tax withholding on the wages of certain agricultural workers (effective January 1, 1990) | 270 | 68 | 21 | 22 | 23 | 404 |
| J. Require regulated investment companies (mutual funds) to distribute 98% of ordinary income to their shareholders (effective for taxable years ending after July 10, 1989) | 50 | 5 | 5 | 5 | 5 | 70 |
| K. Adjust basis for mutual fund load charge only if shareholder holds shares for 30 days | 14 | 28 | 13 | 5 | 3 | 63 |
| L. Reduce built-in gain or loss threshold of sections 382 and 384 to lesser of 15% or $10 million | 25 | 42 | 44 | 46 | 49 | 206 |
| M. Increase enforceability of section 482 with respect to U.S. subsidiaries and branches of foreign corporations through improved reporting | 60 | 80 | 85 | 90 | 95 | 410 |
| N. Modify excess loss account recapture rules to prevent shifting of basis to debt | 54 | 69 | 61 | 52 | 42 | 278 |
| O. Require basis reduction for nontaxed portion of dividends on self-liquidating ("wasting") stock | 6 | 10 | 11 | 12 | 13 | 52 |

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| P. Repeal special 10-year write-off for costs of acquiring franchises, trademarks, and tradenames where payment exceeds $100,000 (section 1253(d)(2)) | 55 | 90 | 115 | 135 | 150 | 545 |
| Q. Conform tax years of controlled foreign corporations and foreign personal holding companies to the tax years of their U.S. shareholders | 48 | 71 | 71 | 71 | 36 | 297 |
| R. Change the sourcing of foreign income of certain commonly-controlled nonconsolidated corporations | 20 | 37 | 41 | 45 | 49 | 192 |
| S. Modifications to section 89 (5) | -57 | -- | -- | -- | -- | -77 |
| T. Limit nonrecognition treatment when securities are received by corporate transferors in section 351 transactions (effective July 11, 1989) | 52 | 83 | 84 | 80 | 40 | 339 |
| U. Deny the benefits of section 174 for expenses with respect to R&D not performed in the United States (effective for taxable years beginning after December 31, 1989) | 43 | 81 | 68 | 57 | 47 | 296 |
| V. Include dividends in income of RICs (regulated investment companies) on ex-dividend date (effective for ex-dividend dates after July 13, 1989) | 110 | 20 | 20 | 20 | 20 | 190 |
| W. Deny retroactive certification of WIN credit | 38 | 28 | 12 | -- | -- | 78 |
| X. Deny amortization of life estate in related-party joint purchases | -- | 7 | 7 | 8 | 8 | 30 |
| Y. Add cellular telephones as "listed property" for depreciation purposes | 2 | 10 | 14 | 18 | 24 | 68 |
| Z. Require reporting of mortgage points by lender | 2 | 5 | 5 | 5 | 5 | 22 |
| Subtotals: | 3,405 | 4,712 | 4,448 | 4,212 | 4,108 | 20,865 |
| **V. CHILD CARE INITIATIVE** | | | | | | |
| A. Expanded Earned Income Tax Credit (effective 1/1/91): | | | | | | |
| 1. Adjustments for family size (3+): phasein 17%, 21%, 25%; phaseout 12%, 15%, 18% | -- | -296 | -2,878 | -3,092 | -3,315 | -9,581 |
| 2. Supplemental for children under 6 years old: phasein 6%; phaseout 4.25% | -- | -149 | -1,505 | -1,614 | -1,730 | -4,998 |
| B. Expansion of Title XX Block Grant for Child Care Services (outlays) | -- | -350 | -400 | -400 | -400 | -1,550 |
| Subtotals: | --- | -795 | -4,783 | -5,106 | -5,445 | -16,129 |

| VI. EXPIRING PROVISIONS<br>A. Temporary Extensions (through 12/31/91) | Code Section | Current-Law Expiration | | | | | |
|---|---|---|---|---|---|---|---|
| 1. Employer-provided education assistance (3 years) | Sec. 127 | 12/31/88 | -497 | -316 | -96 | -- | -- | -909 |
| 2. Targeted jobs tax credit (2 years) | Sec. 51 | 12/31/89 | -47 | -134 | -144 | -80 | -37 | -442 |
| 3. Mortgage revenue bonds (2 years) | Sec. 143 | 12/31/89 | -11 | -55 | -117 | -145 | -143 | -471 |
| 4. Small-issue manufacturing bonds (2 years) | Sec. 144 | 12/31/89 | -7 | -39 | -80 | -78 | -76 | -280 |
| 5. Business energy credits (geothermal; 2 years) | Sec. 46 | 12/31/89 | -44 | -60 | -18 | 4 | 3 | -115 |
| B. Permanent Extensions | | | | | | | | |
| 1. Low-income housing credit (with modifications) | Sec. 42 | 12/31/89 | -80 | -335 | -685 | -1,067 | -1,460 | -3,627 |
| 2. Research and experimentation credit (with modifications) | Sec. 41 | 12/31/89 | -398 | -782 | -968 | -1,063 | -1,194 | -4,406 |
| 3. Research and experimentation cost allocation rules (64% allocation; effective for taxable years beginning after 8/1/89) | Sec. 861 | + | -310 | -625 | -708 | -772 | -837 | -3,252 |
| Subtotals: | | | -1,394 | -2,346 | -2,816 | -3,201 | -3,744 | -13,502 |

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|---|---|---|---|---|---|---|
| **VII. AMENDMENTS TO MEDICARE CATASTROPHIC PROGRAM (includes outlay effects)....** | **410** | **304** | **22** | **608** | **N/A** | **1,344** |
| **VIII. SUBCOMMITTEE-RELATED ITEMS** | | | | | | |
| A. Penalty Reform..... | -- | -51 | -82 | -58 | -25 | -216 |
| B. Permit Use of Tax Return Information by Department of Veterans Affairs.. | -- | -- | -- | -- | -- | --- |
| C. CBI Proposals (previously reported by full Committee as H.R. 1233), with Modifications..... | -31 | -35 | -39 | -12 | -2 | -119 |
| D. Corporate Alternative Minimum Tax | | | | | | |
| 1. Eliminate book backstop..... | -388 | -590 | -575 | -538 | -560 | -2,650 |
| 2. Adjust regular and alternative minimum tax treatment of installment sales of timeshares and residential lots by C corporations..... | -9 | -12 | -8 | -4 | -4 | -37 |
| 3. Allow exclusion preferences as credits..... | -- | -24 | -61 | -92 | -119 | -296 |
| 4. Allow DRD from ACE for 80% or more stock ownership..... | -5 | -7 | -6 | -5 | -5 | -28 |
| 5. Other changes..... | (6) | (6) | (6) | (6) | (6) | (6) |
| 6. Allow DRD from ACE for 20%-80% stock ownership..... | -15 | -24 | -20 | -17 | -14 | -90 |
| 7. Elminate individual R&E preference for all non-corporate entities if material participation by owner/partner (effective 1/1/91)..... | -- | -4 | -14 | -14 | -14 | -46 |
| 8. Allow residential construction firms to use CCM for AMT..... | -- | -5 | -5 | -5 | -5 | -20 |
| 9. Permit certain corporations with 100% foreign source income to use 100% of foreign tax credits for AMT purposes (income earned after 3/31/90)..... | -2 | -5 | -5 | -5 | -5 | -22 |
| 10. Exclude certain cooperative FSCs from AMT (effective for taxable years beginning after 12/31/89)..... | -2 | -3 | -3 | -3 | -3 | -14 |
| E. Rehabilitation Tax Credit | | | | | | |
| 1. Provide exception from income phaseout of $25,000 exemption from passive loss rules..... | -8 | -21 | -29 | -39 | -48 | -145 |
| 2. Relocated buildings treated as qualifying property..... | -2 | -- | -- | -- | -- | -2 |
| Subtotals: | -462 | -781 | -847 | -792 | -804 | -3,685 |
| **GRAND TOTALS.....** | **3,651** | **2,373** | **-2,780** | **-3,022** | **-4,654** | **-4,456** |

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* Effective for transactions after July 10, 1989, unless otherwise noted.
\+ Rules expire 4 months after start of a firm's first tax year beginning after August 1, 1987.
(1) Estimate total includes a loss of $4 million in FY 1989.
(2) Gain of less than $500,000.
(3) Estimate assumes suspension of trigger with no impact beyond scheduled expiration date of taxes of December 31, 1990.
(4) Gain of less than $5 million.
(5) Estimate total includes a loss of $20 million in FY 1989.
(6) Loss of less than $5 million.